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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONERS

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	ii
REPLY BRIEF FOR PETITIONERS	1

TABLE OF AUTHORITIES

Cases: Page

Alexander v. Sandoval, 532 U.S. 275 (2001)..... 2

Digidyne Corp. v. Data Gen. Corp., 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985)..... 3, 4, 5

Grappone, Inc. v. Subaru of New England, Inc., 858 F.2d 792 (1st Cir. 1988)..... 8

In re Independent Service Organizations Antitrust Litigation, 203 F.3d 1322 (Fed. Cir. 2000)..... 6

International Salt Co. v. United States, 332 U.S. 392 (1947)..... 1, 5, 6

Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2 (1984).....4, 5, 7, 8

Mozart Co. v. Mercedes-Benz of N. Am., 833 F.2d 1342 (9th Cir. 1987), *cert. denied*, 488 U.S. 870 (1988)..... 3

National Soc. of Prof'l Eng'rs v. United States, 435 U.S. 679 (1978)..... 2

NCAA v. Board of Regents of Univ. of Okla., 468 U.S. 85 (1984)..... 7

State Oil Co. v. Khan, 522 U.S. 3 (1997)..... 2

United States v. Craft, 535 U.S. 274 (2002)..... 2

United States v. Loew's, Inc., 371 U.S. 38 (1962).. 1, 5

Miscellaneous:

9, 10 P. Areeda et al., *Antitrust Law* (2d ed. 2004)..... 8

TABLE OF AUTHORITIES

Page

Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee on the Judiciary, House of Representatives, 107th Cong., 1st Sess. (Nov. 8, 2001) 4

Intellectual Property Antitrust Protection Act of 1995: Hearings on H.R. 2674 Before the Committee on the Judiciary, House of Representatives, 104th Cong., 2d Sess. (1996) .. 3, 4

E. Fox, *The Modernization of Antitrust: A New Equilibrium*, 66 Cornell L. Rev. 1140 (1981).... 7

R. Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 Antitrust L.J. 913 (2001) 6

REPLY BRIEF FOR PETITIONERS

The American Bar Association states in its amicus brief in support of certiorari that "[t]his case presents a legal dispute that is classically appropriate for resolution by this Court," pointing out the importance of the question presented regarding the presumption of market power in patent tying cases, that issue's clear presentation in this case, the division among the lower courts, the statements by a number of Justices questioning the market power presumption, and the urgent need for guidance to practitioners and courts. ABA Am. Br. 2-3. The nation's leading voluntary bar association of intellectual property lawyers agrees that the issue presented is one "of exceptional importance with widespread impact." American Intellectual Property Law Association ("AIPLA") Am. Br. 2. And intellectual property owners explain that "[i]f the decision below is left standing, it will create a roadblock to the efficient use of intellectual property." Pfizer Am. Br. 3; see also Intellectual Property Owners ("IPO") Am. Br. 12.

Respondent's brief in opposition is a mélange of ad hominem attacks and unsupported factual assertions that fails to rebut the arguments in the petition demonstrating why this Court should reconsider the market power presumption. The petition for a writ of certiorari should be granted.

1. Respondent asserts (Br. in Opp. 1-5) that *stare decisis* and subsequent congressional inaction each preclude reconsideration of the Court's decisions in *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Loew's, Inc.*, 371 U.S. 38 (1962). Respondent is wrong on both counts.

With respect to *stare decisis*, respondent completely ignores this Court's express determination that "the general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act in light

of the accepted view that Congress 'expected the courts to give shape to the statute's broad mandate by drawing on common-law tradition.'" *State Oil Co. v. Khan*, 522 U.S. 3, 20-21 (1997) (quoting *National Soc. of Prof'l Eng'rs v. United States*, 435 U.S. 679, 688 (1978)). That is why this Court has reconsidered and overruled decisions construing the Sherman Act on a number of prior occasions (Pet. 8) — another fact that respondent completely ignores.

Respondent next argues that the Court is precluded from reconsidering the market power presumption because the issue supposedly has been addressed by Congress. But Congress has not endorsed the presumption by, for example, codifying it or enacting legislation in reliance on the presumption's existence. Respondent's entire argument rests on Congress's failure to enact legislation. As this Court has previously explained, however, "it is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation." *Alexander v. Sandoval*, 532 U.S. 275, 292 (2001) (citations and internal quotation marks omitted); see also *United States v. Craft*, 535 U.S. 274, 287 (2002) ("failed legislative proposals are 'a particularly dangerous ground on which to rest an interpretation of a prior statute,' reasoning that '[c]ongressional inaction lacks persuasive significance because several equally tenable inferences may be drawn from such inaction, including the inference that the existing legislation already incorporated the offered change'") (citations omitted).

Reliance on congressional inaction is particularly inappropriate in the antitrust context for the same reason that *stare decisis* applies with less force: Congress in the Sherman Act conferred upon the courts a mandate to evolve antitrust law in a common law fashion and a very clear expression of congressional intent therefore would be necessary to conclude that Congress has withdrawn that authority with respect to a particular issue. Respondent points to inconclusive legis-

lative consideration of the issue that falls far short of a congressional endorsement of the market power presumption.

Indeed, those legislative deliberations support the conclusion that Congress intended to leave the matter for correction by the courts. In testimony during a House Judiciary Committee hearing with respect to the 1995 legislation cited by respondent (Br. in Opp. 3), Assistant Attorney General Joel Klein agreed that the market power presumption should be eliminated (*Intellectual Property Antitrust Protection Act of 1995: Hearings on H.R. 2674 Before the Committee on the Judiciary, House of Representatives*, 104th Cong., 2d Sess. 13 (1996) ("*Hearings on 1995 Act*")), but recommended against legislative action for just this reason:

> The virtual unanimity of scholars on this point, the analysis contained in the DOJ/FTC Intellectual Property Guidelines, and the inexorable development and maturation of court decisions in this area of antitrust law, which all resolve the issue in accordance with the substance of this legislation [eliminating the market power presumption], bring into question whether legislative action is really necessary at this point. One of the great virtues of the antitrust laws is that they are general in nature. Adopting new antitrust legislation should be done only when the need for such legislation is great.

Id. at 16.

The 1995 proposal was stimulated in part by congressional concern about the continuing effect of the decision in *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985), which employed the market power presumption. Assistant Attorney General Klein advised the committee that "the law is at the point where, especially with our guidelines, the likelihood of seeing a recurrence of a *Digidyne*-type holding[] seems to me to be very small." *Hearings on 1995 Act* at 17. He stated that, "given the [Ninth Circuit's subsequent decision in *Mozart*

Co. v. Mercedes-Benz of North America, 833 F.2d 1342 (9th Cir. 1987), *cert. denied*, 488 U.S. 870 (1988)], the uniform body of law review articles and case law subsequent to *Digidyne*, and now the Department of Justice and Federal Trade Commission Guidelines, that *Digidyne* is a relic, and, therefore, * * * the costs of this kind of relatively small change in the antitrust law outweigh the benefits." *Hearings on 1995 Act* at 18.

During the 2001 hearings that respondent quotes at length (Br. in Opp. 3), Rep. Boucher cited Assistant Attorney General Klein's prior testimony in explaining why legislative action was not required. *Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee on the Judiciary, House of Representatives*, 107th Cong., 1st Sess. 17 (Nov. 8, 2001); see also *id.* at 10 ("[t]he only hesitation about this legislation that I have heard is from those who say that we should not as a matter of principle amend the 100-year-old antitrust laws") (testimony of Charles Baker on behalf of the American Bar Association).

In sum, Congress's inaction is more consistent with a determination to leave the issue to the courts than with endorsement of the presumption. There simply is no basis for the Court to conclude that Congress has overturned the general rule that applies with respect to the Sherman Act and withdrawn this Court's authority to reconsider the market power presumption.

2. Respondent's attempts to rebut the arguments in the petition demonstrating why reconsideration of the presumption is warranted are equally unavailing. First, respondent denigrates the considered view of several Members of this Court, describing the rejection of the market power presumption by four concurring Justices in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), as "nothing more than a single phrase without explanation or analysis" that was "not persuasive to the majority of the court" (Br. in Opp.

19).[1] Respondent also argues that the dissent from the denial of certiorari in *Digidyne* was limited to a market power presumption based on copyright. *Ibid.* But that completely ignores the fact that the courts have not distinguished between patent and copyright. Indeed, this Court's decision in *Loew's* (a copyright case) relied upon the prior decision in *International Salt* (a patent case) and stated the same rule for both. *Loew's*, 371 U.S. at 45 ("economic power is presumed when the tying product is patented or copyrighted"). These views of a number of Members of the Court are highly relevant to whether the presumption should be reconsidered.

Next, respondent acknowledges the conflict among the courts of appeals, but dismisses the Sixth Circuit decision rejecting the market power presumption as the act of "a rogue panel." Br. in Opp. 21. That label does nothing to dissipate the conflict among the courts of appeals, which means that the resolution of this issue now turns upon where a case is filed, and, because of the scope of the Federal Circuit's exclusive appellate jurisdiction (see Pet. 25), whether the case is initiated with a claim of patent infringement or an antitrust violation. That is another important reason why this Court should address the issue.

Respondent asserts that the views of the federal antitrust enforcement agencies are irrelevant and attributes those agencies' rejection of the market power presumption to changes in "the ideology of the Justice Department." Br. in Opp. 14-15. But this Court has often relied upon these agencies' views in reconsidering prior Sherman Act decisions. Pet. 17. And respondent's claim that those views are ideo-

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[1] Respondent asserts (Br. in Opp. 6 n.2) that the concurrence endorsed a rebuttable presumption, but it confuses the explanation of the reasons why a presumption is inappropriate with the concurrence's clear rejection of any sort of presumption. *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in the judgment).

logically driven is just wrong: the government IP guideline rejecting the market power presumption was adopted during the Clinton Administration and, as we have just discussed, was vigorously supported by then-Assistant Attorney General Klein. The guideline has remained unchanged during the ten years since it was adopted.[2]

Finally, respondent discounts the views of numerous antitrust scholars on the ground that they are "ideological opponents" of the market power presumption and represent only the "Chicago School." Br. in Opp. 6, 16-18. In fact, these distinguished individuals reflect a broad range of approaches to antitrust scholarship, and their uniform view is supported by the amicus briefs filed by the American Bar Association and the AIPLA, both of whose members "represent the full spectrum of public and private litigants, including plaintiffs and defendants." ABA Motion i; see also AIPLA Motion 1-2. Respondent has not identified a single scholar who endorses the market power presumption.[3] And, although respondent

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[2] Respondent intimates that former FTC Chairman Pitofsky supported the market power presumption. In fact, Chairman Pitofsky's quoted criticism of *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000), had nothing to do with the presumption. It addressed what he viewed as "extremely narrow limits on a virtually unfettered right of a patent holder to refuse to deal in order to achieve an anticompetitive objective." R. Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 Antitrust L.J. 913, 920-21 (2001). In fact, just after the segment respondent quotes, Chairman Pitofsky observed that "[m]isuse of a patent to coerce purchasers to take an unpatented separate product, *assuming the patent confers true market power*, has long been thought to be an illegal tie * * *." *Id.* at 921 (citing *International Salt*) (emphasis added). Clearly Chairman Pitofsky was not suggesting that market power should be presumed.

[3] Neither of the two articles cited by respondent (Br. in Opp. 19) even mentions the presumption. Professor Fox does discuss *Inter-*

believes these scholars' views to be irrelevant (Br. in Opp. 15), this Court has in the past taken note of the weight of authority within the academic community. Pet. 19.

3. The bulk of respondent's argument is devoted to defending the presumption on the merits. See Br. in Opp. 6-14 & 21-24. Of course, respondent never even tries to explain why this presumption applies only in tying cases and has been rejected in every other antitrust context. See Pet. 16-17.

The foundation of respondent's defense of the presumption is its assertion that "[a] rational economic model * * * would presume that if there are two equally desirable products, one of which has a tying restriction and one of which does not * * *, the rational consumer will purchase the product without the tying restriction." Br. in Opp. 8. Therefore, respondent contends, there must be some market characteristic of the tying product that "would cause a consumer to make a rationally disadvantageous decision"; where the tying product is patented that characteristic must be "the market power obtained as a result of the unique features of the patented product." *Id.* at 9.

Respondent's basic premise is wrong. This Court has explained that "not every refusal to sell two products separately can be said to restrain competition. * * * Buyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete effectively — conduct that is entirely consistent with the Sherman Act." *Jefferson Parish*, 466 U.S. at 11-12; see also *NCAA v. Board of Regents of Univ. of Okla.*, 468 U.S. 85, 104 n.26 (1984)

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national Salt at length, but only to argue that both economists and the courts now recognize that tying is potentially efficient, and therefore the per se rule against tying should apply only when the defendant has sufficient market power over the tying product. E. Fox, *The Modernization of Antitrust: A New Equilibrium*, 66 Cornell L. Rev. 1140, 1189-90 & nn. 179-182 (1981).

("while the Court has spoken of a '*per se*' rule against tying arrangements, it has also recognized that tying may have pro-competitive justifications that make it inappropriate to condemn without considerable market analysis"); *Jefferson Parish*, 466 U.S. at 35-42 (opinion concurring in the judgment) (explaining that tying harms competition only in limited circumstances and describing situations in which tying promotes efficiency and benefits consumers); 9 P. Areeda et al., *Antitrust Law* ¶ 1703a, at 30-31 (2d ed. 2004) ("[a]lthough tying can sometimes impair rivalry and thereby gain or reinforce market power, * * * diminished competition is not the object or effect of most litigated tie-ins, especially not of those foreclosing only a small share of a properly defined tied product market"); IPO Am. Br. 12-13 (explaining consumer benefits from tying); AIPLA Am. Br. 9 (same).

Indeed, it is the insight that tying arrangements may promote rather than injure competition that has led the Court to emphasize the market power requirement in its recent decisions. *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 797 (1st Cir. 1988) (Breyer, J.) ("Though some members of the Supreme Court might go further, the holding of *Jefferson Parish* convinces us that the entire Court means the 'market power' requirement to be serious enough to screen out [a] class of harmless tie."); see also 10 Areeda et al., *supra*, ¶¶ 1734a, 1734b, at 35-41.

Respondent's reasoning — (1) all tying arrangements harm consumers; (2) a tie accordingly can succeed in the marketplace only if the seller exercises market power with respect to the tying product; and therefore (3) patents on products included in ties that succeed necessarily convey market power — turns the Court's approach on its head by presuming market power based upon the success of a package sale in the marketplace. Under respondent's theory, every tie that succeeds in the marketplace, whether or not it involves a patented product, would constitute an exertion of market power because in respondent's view the very success

of the tie is sufficient to demonstrate market power in the tying product. That approach effectively eliminates the market power requirement in tying cases, a result that is directly contrary to this Court's jurisprudence.[4]

Respondent also places great emphasis on the contention that businesses would not invest in research and development if patents did not convey market power, Br. in Opp. 7-8 & 21-22. What respondent ignores is that "patented improvements typically compete with and provide alternatives to existing products that are already established in, or that may even dominate, the marketplace" and therefore "only rarely afford[] * * * any appreciable market power in a relevant product market in the antitrust sense." AIPLA Br. 4-5; see also Pet. 16-17; Pfizer Am. Br. 6 ("In the pharmaceutical industry, patented goods are seldom sufficiently unique to command market power. Almost all patented products compete with other patented products."); IPO Am. Br. 11-12. In this case, for example, the district court found that petitioners' barcode printing system competed with two other patented products as well as with pre-printed labels. Pet. App. 22a, 35a-36a.

Finally, respondent's brief contains numerous factual assertions, none of which is supported by a citation to the record. That is because many of them are wrong[5] and others — such as the numerous assertions about Hewlett Packard's al-

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[4] Respondent misrepresents our position in asserting that we contend that patents "should be completely disregarded in any economic analysis." Br. in Opp. 6 (footnote omitted). Like any property right, the existence of a patent on the tying product is a fact relevant to the market power analysis; it simply should not suffice to carry a plaintiff's burden of proving market power.

[5] For example, respondent asserts that the patent licenses bind end users of petitioners' equipment. Br. in Opp. 12. In fact, the license applies only to petitioners' OEM customers, not to the end users. See Pet. 3.

leged practices (Br. in Opp. 13-14 & 23-24) — have no support whatever in the factual record in this case.

In sum, respondent cannot justify the market power presumption as a matter either of law or of economics; failed to rebut our showing that the factors relied on by this Court in reconsidering other antitrust precedents all strongly favor reconsideration of the presumption; and is unable to overcome the arguments in the petition, supported by four distinguished amici, establishing the importance of the question presented and the harm to the economy and the litigation system that will flow from the Federal Circuit's determination — a determination that the court of appeals believed to be compelled by this Court's precedents.

For the foregoing reasons, and those stated in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted.

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